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GRADUATE SCHOOL

Thesis

THE AMERICAN AND EUROPEAN WAR DEBTS AND WORLD TRADE

by

Harold Wilson

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INTRODUCTION

Ever since the World War nations of the globe have been groaning under the burden of enormous war debts. These debts represent wealth employed for destructive purposes. Unlike normal business debts, these expenditures to prosecute a world-wide conflict have been totally unproductive; no benefits have accrued to the world at large. Goods and man-power have been diverted from productive channels. In the post-war scramble to make up, in a measure, these losses, to rehabilitate industry and commerce, these nations (among various steps) have resorted to the setting up of trade barriers in the form of discriminatory tariffs. In their endeavors to preserve domestic markets, a number of creditor governments have (whether deliberately or unwittingly) shut out - to a great extent - the trade of some debtor countries. A trade war of international scope has resulted. A strong desire, no doubt, for national security - based on economic wellbeing - has prompted such measures. But these very measures have served to produce the opposite effect, on the whole. Every nation of the world has been the loser as a consequence. Debtor nations have been unable, in a degree, to ship goods or sell services because of these trade barriers, whereby they might accumulate sufficient money of their creditor nations with which to pay their war debts. These unpaid obligations have tended to hang like a pall over the world, causing economic unrest and generally destroying that confidence essential to world recovery. The purpose, therefore, of the follow-

ing discussion is to determine whether the most desirable solution of the war debt problem lies in the complete cancellation of these debts in the interest of favorable trade conditions for the entire world - to promote, to stimulate, world-wide economic recovery.

CHAPTER I

HISTORY OF THE INTER-GOVERNMENTAL WAR DEBTS

CHAPTER I

The first considerations that present themselves when one studies the inter-governmental war debt problem are embodied in the queries: What circumstances surrounded the negotiation of such huge loans? What is the nature of these unprecedented financial transactions which, seemingly, have served to upset the economic equilibrium of the world? Also, what were the original attitudes toward these loans by all concerned? Finally, what were the terms covering these borrowings?

Before the United States entered the war, Great Britain served in the role of banker for the Allies. Having been unable to furnish a large army at once for active service, she felt it her duty to make substantial loans to Russia, France, Italy, the Dominions, Roumania, Serbia, Montenegro, Portugal and Greece. During this period the total inter-governmental loans amounted to 4,328.9 million dollars at par exchange. Of the amount Great Britain loaned 3,814.4 millions. During the same period, however, the French government borrowed 555 million dollars from the British government.[1] Although the United States as a neutral did not officially take part in these financial transactions, private American sources did supply part of the credits used by the Allies. The $500,000,000 five per cent Anglo-French bond issue of 1915, floated by American bankers, stands out as the largest grant of credit from private individuals.[2]

1. Moulton and Pasvolsky, War Debts and World Prosperity; p. 35.
2. Foreign Policy Association; vol. III; Special Supplement, no. 1; United States and the War Debts; p. 5.

It is apparent that when the United States entered the war on April 6, 1917, the Allied governments were in deep financial distress. "By their own admission at the time we came into the situation, the Allies were at their wits end to know which way to turn in order to obtain needed supplies."[1] In view of this, and the fact that the United States could not provide an effective army immediately, she considered it her place to provide financial aid at once on a scale hitherto unknown in history.[2] This assistance we agreed to furnish in the face of the tremendous financial requirements in America's own war program.

For three main reasons this policy seemed to be "preferable to merely facilitating access to the American Capital market and letting the Allied nations supply their requirements out of loans offered to American banks and private investors": First, foreign governments would not be competitors, then, with the United States Treasury in the American money markets; second, it was a question whether our allies could borrow ample funds by negotiating directly - if so, the rate of interest being pro-

1. H. E. Fisk, The Inter-Ally Debts; p. 8
2. "Our loans were our answer to Europe's appeals for aid, lest she perish. They enabled the debtor nations to purchase food and munitions, to sustain their armies in the field and to feed their civilian populations. They were made in the face of threatened military defeat and at a time when internal ~~civil~~ disorders threatened to engulf and destroy the borrowers." Bainbridge Colby, Proceedings of Academy of Political Science; vol. XV; May, 1932; "Should War Debts Be Cancelled?"; pp. 68-69

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hibitive; third, our Treasury, in its role as banker to the Allies, could better "co-ordinate European purchases with those effected by the American government," making for "more efficient utilization of available supplies," besides keeping prices down in the absence of competition between American and foreign purchasers.[1]

In his war message of April 2, 1917, President Wilson stated that the waging of war with Germany "will involve the utmost practicable cooperation in counsel and action with the governments now at war with Germany, and as incident to that, the extension to those governments of the most liberal financial credits, in order that our resources may so far as possible be added to theirs."[2] He further said, "In carrying out the measures by which these things are to be accomplished (the prosecution of the war without severe inflation) we should keep constantly in mind the wisdom of interfering as little as possible in our own preparation and in the equipment of our own military forces with the duty - for it will be a very practical duty - of supplying the nations already at war with Germany with the materials which they can obtain only from us or by our assistance. They are in the field, and we should help them in every way to be effective there."[3]

At once Congress applied itself to putting into legislation the recommendations of the President. The first Liberty Loan

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2. Woodrow Wilson, The War Message and Facts Behind It;p.13
3. Ibid; p.14

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Act, authorizing a five billion dollar bond issue and a loan of three billion dollars to be made to our allies, became a law April 24, 1917.[1] Three Liberty Loan Acts followed - September 24, 1917, April 4, 1918, and July 9, 1918. These four acts authorized the Secretary of the Treasury, subject to the approval of the President, to furnish credits to the Allies to an amount not to exceed ten billion dollars. These obligations of the foreign governments (Allies) the American government was to purchase at par. The terms of repayment were to be essentially the same as those governing the sale of Liberty bonds to the people of the United States.[2] During the actual war period our Treasury advanced credits to seven nations: Great Britain, Russia, Italy, France, Belgium, Serbia (Jugoslavia), and Cuba. By the time of the Armistice our loans to the Allies had reached the total of $7,077,000,000.[3]

For two years after the signing of the Armistice loans were made to foreign governments. Under the Liberty Loan Acts of Congress it was stipulated that loans were to be made for the purpose of prosecuting the war and only to those nations at war with enemies of the United States. But peoples of Europe were either starving or on the verge of starvation. Our industries were in full operation producing vast amounts of supplies under war contracts. The sudden cancellation of these would have had a

1. Foreign Policy Association; vol.III;Special Supplement, no.1; United States and the War Debts; p. 6.
2. Moulton and Pasvolsky, War Debts and Prosperity; p. 37.
3. H. E. Fisk, The Inter-Ally Debts; p. 8

disastrous effect at home in the employment situation, investments, and the buying power of the public. Congress, evidently, could not sense the seriousness of the situation, in refusing to amend the loan Acts. But the administration overcame these difficulties by considering the war as still being carried on, since these same acts declared that by proclamation of the President was the legal end of the war to be determined.[1]

Of the post-armistice loans, three-fourths were granted under the Liberty Loan Acts. Other advances by our Treasury were authorized by special acts of Congress. It is true that we loaned to countries other than those that had been at war with enemies of the United States. We felt obliged to lend to these governments, in the name of humanitarianism. Part of the funds was used to liquidate war accounts, part to pay interest on war time loans, and a portion for reconstruction and relief work.[2] The authorities on war debts vary a few millions on the total of post-armistice loans made by the American government. In a statement prepared from official Treasury reports, the official figure has been given as $2,521,000,000.[3]

Much discussion has taken place as to what have constituted war expenditures on the part of our allies and what can be termed commercial expenditures. In a war of such magnitude, during which time the entire resources of each warring nation were mobilized, the money expended for civil purposes must have

1. H.E.Fisk, The Inter-Ally Debts; p. 9
2. Moulton and Pasvolsky, War Debts and World Prosperity; pp.38,39
3. Foreign Policy Association; vol.III; Special Supplement, no.1; The United States and the War Debts; p.4.

strengthened in general the defense establishments of each nation. If France and England used part of the money borrowed from us to "peg their exchanges," or to buy food for their civil populations, or, even, for Great Britain to "furnish India with silver," it all contributed to the general wellbeing of these Allies, and enabled them to better prosecute the war.. We must not lose sight of the fact that the greater portion of these funds was spent in the United States. "They flowed back into the hands of farmers, manufacturers, wage earners, etc., as the governments spent them for goods and services required in the war. They went into increased plant and equipment, into increased savings, into higher priced land and into larger expenditures by the consuming public."[1]

It has been contended that Great Britain borrowed from the United States for the purpose of lending to her Allies on the continent, to make it possible for them to continue their war operations. But this argument is answered in many quarters. The outstanding answer comes from Great Britain. The London Economist of January 10, 1925, replies to this contention in an editorial, saying, in part: "But we cannot argue that if we had not been compelled to lend to our European Allies we need not have borrowed from America; the reason we had to borrow from the American Government was that - large though our internal loans might be - we had no means of securing credit in dollars......

1. The National Industrial Conference Board, Inter-Ally Debts and United States; p. 108.

It is quite certain that even if France had not had to make further purchases in Great Britain in 1917 and 1918, we should still have been under the necessity of borrowing in dollars in the United States in order to feed Great Britain and to provide the material which America alone could supply."[1]

The loans to the Allies were made from funds raised from taxation and the sale of Liberty Bonds. They were not advanced "as lump sums granted in advance," but were given as needed for "current purchases of supplies in exactly the same way as if they were being used for purchases of supplies for American use". With few exceptions, loans were granted only under the condition they be used for purchases in America. The Allies had their separate purchasing agencies, but these so cooperated with the American Agencies - the Purchasing Commission, the War Industries Board, the Food and Fuel Administrations and the War Trade Board - that Allied buying in the United States was "effectually controlled "as to quantity, character, and terms.[2] The United States Treasury did not make the expenditures for the Allies, but it paid to the Allies the purchase price of certain securities offered by these governments, and they made the expenditures.[3] These governments were obliged to forward to the Treasury a detailed account of their purchases. The Treasury then granted sufficient credit (covered by the securities) to these governments to cover the costs of the materials purchased.

1. Quoted on pp.60,61, the National Industrial Conference Board, Inter-Ally Debts and United States.
2. The National Industrial Conference Board, Inter-Ally Debts and United States; p. 42.
3. Ibid

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3. Ibid

The uses made of the credits may be noted in the following list[1] of materials and services purchased by the Allies:

Munitions, including remounts	2,493,610,000
Munitions for other governments	205,495,000
Exchange and cotton purchases	2,644,783,000
Cereals	1,422,476,000
Other foods	1,629,726,000
Tobacco	145,100,000
Other Supplies	613,107,000
Transportation	136,083,000
Shipping	173,397,000
Interest	730,504,000
Maturities	648,246,000
Relief	538,188,000
Silver	267,943,000
Food for Northern Russia	7,029,000
Purchases from Neutrals	18,718,000
Special Credit against credits to be established for United States Government war purchases in Italy	25,000,000
Miscellaneous	168,530,000
	$11,867,943,000

"Those expenditures exceeded the net advances of 9,466,283,000 made by the United States up to November 1, 1920, by $2,401,661,000. This difference apparently was provided by

1. Quoted on page 8, Foreign Policy Association; vol. III; Special Supplement, No. 1; The United States and the War Debts; from a United States Treasury report.

   Also quoted on page 176, H. E. Fisk, The Inter-Ally Debts.

other resources of the purchasing governments."[1]

Almost three years elapsed after the signing of the Treaty of Versailles before the problem of inter-governmental debts presented itself strongly to various governments. Too many other weighty problems had claimed the attention of these nations involved in the war. Possibly each one concerned awaited the first move of its creditor or creditors, hoping that a policy of cancellation would be adopted. During this time much diplomatic correspondence passed between representatives of the United States and those of our debtor countries on this subject. The United States would not alter her determined position of insistence on the funding of the war debts. There is evidence in letters that passed between high American officials and European statesmen to support the suspicion that the Allied governments had taken it "very largely for granted" that the United States would "pursue a policy of debt cancellation" - possibly, at least, in the matter of pre-armistice loans.[2]

During the early post-war period the informal debt discussions revealed a difference in the viewpoint of the United States and Allied governments as to the character of the war debts. The loans were not regarded as gifts but as purely commercial obligations. "The loans.....were evidenced at first by short-term obligations, renewed at maturity, and later by

1. H. E. Fisk, The Inter-Ally Debts; p. 177.
2. Foreign Policy Association; vol.III; Special Supplement, no. 1; The United States and the War Debts; p. 15.

demand obligations. Technical difficulties alone prevented, while the war was still in progress, the conversion of these obligations into definite long-term bonds."[1] Our Treasury officials clearly pointed out to the Allied governments that the loans we advanced were made with the "definite expectation" of being repaid "in full" at the end of the war. "While accepting the point of view of the American government as to the nature of the advances made by the United States Treasury, Allied governments had from the beginning regarded the loans among themselves as a phase of war cooperation and had assumed that these credits would be adjusted at the end of the conflict as a part of the general liquidation of the war."[2]

It would not be out of place to pause here to review briefly the significance of these loans - <u>from the American viewpoint</u> - as discussed in an official bulletin issued by the Treasury department of the United States the latter part of 1917. It was contended that not only for our military protection, but for our economic wellbeing, the loans were necessary. It was stated that we needed markets for the surplus goods we produced, and that the sale of this surplus to our Allies would contribute to our "economic protection and welfare." It was pointed out that the commercial strength of our Allies made for greater effectiveness in their prosecution of the war, and that this called for an export trade "maintained in a suitable measure." By aiding them to

1. Moulton and Pasvolsky, <u>War Debts and World Prosperity</u>; p.51
2. Ibid.

maintain their industrial life and commercial welfare we were following a "sound economic policy."[1]

Attention was called to the fact that most of the money loaned was spent in the United States, largely for war materials and foodstuffs. It was emphasized that the money we were advancing was a loan, calling for interest payment and repayment of the loan in full. It was pointed out that "our Allies were looked upon by us as solvent people without ready money but with perfectly good credit." Our people were informed that certain American agencies supervised the expenditures of our Allies in the United States; that the same prices and terms insisted on by our government were also obtained by the Allies.[2]

"In conclusion, it was stated that the loans made to our Allies enabled them to do the fighting which otherwise the American army would have had to do at much expense not only of men but of money - money which would not be returned to us and lives that could never be restored. It was therefore claimed that we were not only performing a duty to our associates in lending them a part of our great wealth but that we were also performing a duty to our soldiers and sailors and our own nation in making our allies powerful and effective, 'thus lessening the work and danger and suffering for our own men in bringing the war to an earlier close.'"[3]

However, in the face of such declarations, made in the heat

1. H. E. Fisk, The Inter-Ally Debts; p. 173.
2. Ibid.
3. Ibid; p. 174.

of wartime emotion, the United States - true to its characterization as the Shylock of the nations? - turned its attention to the repayment of these loans. During the presidential election campaign of 1920 the war debts of the Allies had been drawn into the campaign as a political issue. The Republican party had promised that "if successful in the election the new administration would proceed without delay to a regularization of debt payments."[1] Soon after they entered office, President Harding and Secretary Mellon proceeded to carry out these pledges. In June, 1921, Mr. Mellon sought from Congress "full powers for dealing with the war debts." Congress refused to grant such powers to the Treasury. Then Congress, in 1922, authorized a World War Foreign Debt Commission to negotiate debt settlements with our debtor countries. Certain principles were laid down to guide the American representatives in the funding of these obligations to the best interest of this country.

Of the twenty nations which were debtors to the United States because of loans advanced from April, 1917, to November, 1920, the Debt-Funding Commission negotiated agreements with thirteen governments. In these negotiations it was necessary to depart radically from the principles of the debt-funding act. Congress had specified, in the act creating the Debt-Funding Commission, that arrangements should be made for the payment of the whole indebtedness within twenty-five years. In January, 1923, British representatives in Washington protested to the

1. Moulton and Pasvolsky, War Debts and World Prosperity; p.71.

Commission that it was impossible for their government to arrange for payment within this period. These representatives also protested against the charge of $4\frac{1}{4}$ per cent interest, authorized by Congress, for the market rate had fallen to about $3\frac{1}{2}$ per cent. The Commission gave ground on these points. It approved, as terms of settlement, the funding of the entire principal and the entire unpaid interest (amounting, in the case of Great Britain, to about $4,600 million) <u>over a period of 62 years</u>. For the first ten years the rate of interest was designated at 3 per cent; and $3\frac{1}{2}$ per cent for the remaining 52 years.[1]

The American Commission, in approving these terms, exceeded its authority. It was obliged to ask Congress for an amendment. This amendment, passed in February, 1923, conferred far greater discretionary powers upon the Commission, besides providing for the enlarging of that body to eight members under the Chairmanship of the Secretary of the Treasury. (The original Commission was made up of five members under the Chairmanship of the Secretary of the Treasury.) After the granting of larger powers, the Commission proceeded to formulate, as the basis of future funding agreements, the principle of "capacity to pay." An announcement of this policy was incorporated in a statement the Commission issued in October, 1925, in referring to the French negotiations. An interpretation of this principle is found in the Annual Report of the Secretary of the Treasury for the year end-

1. Foreign Policy Association; vol.III; Special Supplement, no.1; <u>The United States and the War Debts</u>; p. 16.

ing June 30, 1925: ".....the adjustments made with each Government must be measured by the ability of the particular Government to put aside and transfer to the United States the payments called for under the funding agreement..... Nor does the principle of capacity to pay require the foreign debtor to pay to the full limit of his present or future capacity. It must be permitted to preserve and improve its economic position, to bring its budget into balance and to place its finances and currency on a sound basis, and to maintain, and if possible improve the standard of living of its citizens. No settlement which is oppressive and retards the recovery and development of the foreign debtor is to the best interest of the United States or of Europe."[1]

The common characteristics of the debt-funding agreements with the various European countries are:

"1. Financial clauses which fix the total amount of the funded indebtedness, the interest rate and the annuities the debtor government will be required to pay.

2. The distribution of these annuities over a period of sixty-two years.

3. The use of bonds payable to the United States on the part of the debtor government. These bonds are exempt from taxation by the foreign government, and the United States has the privilege of exchanging them with the debtor governments for

1. Quoted on page 17, Foreign Policy Association; vol.III; Special Supplement, no.1; The United States and the War Debts.

marketable obligations."[1]

The obligations of the foreign governments held by the United States Treasury were "in the form of ordinary commercial notes bearing interest for the most part at the rate of 5 per cent."[2] Before the funding of these debts, all the interest which had accrued our Treasury had entered on the books at their original rates. At the beginning of the debt-funding negotiations the debtor governments had outstanding against them a total obligation comprising the original amount, with the interest which had accrued for a few years. At the time of the first debt settlement the interest rate was established at $4\frac{1}{4}$ per cent by the American Commission. In the latest agreements the interest rate was set at 3 per cent for the first ten years, and $3\frac{1}{2}$ per cent for the remaining 52 years. Bearing in mind these reductions in interest rates, one should grasp readily the enormous concessions made to our debtors.

"On a 5 per cent basis, the extent of reduction works out at approximately 30 per cent for Great Britain and for six countries - Finland, Poland, Hungary, Latvia, Esthonia, and Lithuania - which negotiated settlements based substantially on the British model. For Czechoslovakia and Roumania, the curtailment is about 37 per cent; for Belgium and France about 60 per cent; for Greece about 72 per cent; for Austria about 74 per cent; for Yugoslavia about 76 per cent; and for Italy it is a

1. Ibid
2. Ibid; p.15.

fraction over 80 per cent. For all the debtors combined the extent of cancellation works out at slightly over 51 per cent."[1] Substantial reductions as these serve to furnish ammunition for the arguments of those who oppose the complete cancellation of the war debts.

However, one student of the debt situation warns us that general prices now are much lower than the period the war debts were contracted and the "proceeds spent." The value of money,in other words, is higher. "If we choose to consider not the nominal money totals of the debts, but the real economic burdens which they entail, the decline in prices (or the rise in value of money) has therefore offset more than four-fifths of the average reduction granted by the United States; and in the case of Great Britain and certain other countries, the remaining real burden has actually been increased. This change in real burdens, similar to that which now confronts Germany, is one from which all debtors suffer in times of declining prices. It is significant that under such circumstances what the debtor loses the creditor gains."[2]

1. Moulton and Pasvolsky, War Debts and World Prosperity;pp.100, 101.
2. James W. Angell, Foreign Policy Reports;Vol.VII,no.4;April 29, 1931; "Reparations and The Inter-Ally Debts in 1931";p.97.

CHAPTER II

REPRESENTATIVE VIEWPOINTS ON THE DEBT PROBLEM

CHAPTER II

A well-known writer[1] on economic subjects derides the attempts of the so-called "internationalists" (who favor debt cancellation) to prove by sound logic of economics that complete cancellation would result in the stimulation of world trade, leading the way, therefore, to world economic recovery. He cites as examples of representative opinion among the cancellationists, Dr. Nicholas Murray Butler, the late Magnus W. Alexander, the president of the National Industrial Conference Board, Senator Borah, the Foreign Policy Association, and alludes to the stand, also, of the publications of the American Federation of Labor.[2]

He readily admits that only by the exchange of goods can debts between governments be paid in the end, for, if a country over a long period imports more than she exports, she will find herself in economic difficulties, since the supply of gold owned by the richest countries does not compare with the value of its trade. Because so many countries are off the gold standard the world is suffering for the scarcity of stable money with which to trade. It cannot be argued, though, that this conditions is due to payments on the war debts. In the central banks of the world, he points out, there is gold enough to do many times the

1. Samuel Crowther
2. Samuel Crowther, The Saturday Evening Post (Dec. 10, 1932), "The Latest War Debt Hoax," pp. 58, 60.

amount of business done at the present time. These banks are hoarding that gold, for they fear that, if once in the hands of their citizens, the gold would leave the country, or be removed from government control. The League of Nations gold delegation, in a majority report, would not recognize that war debts and reparations constituted a major cause in the breaking down of the monetary system of the world. On the policies of the central banks of the world the MacMillan Committee of Great Britain placed the responsibility for falling prices.[1]

The derangement of world currencies, he claims, stands out as one of the major hindrances to a proper resumption of world trade; that the cancellation of debts and reparations would be only a minor factor in the stabilization of monetary systems, and, therefore, in the stimulation of world trade. If no recognized body of experts has concluded that the fall of prices and the upsetting of money systems have been due to war debts and reparations, how, he asks, can this difficulty be remedied by the canceling of them?[2]

Cancellationists, he states, compare our foreign trade today with the period of foreign trade ending in 1929, and then assert that the decrease of a few billion dollars in trade between these dates measures the exact business we lost because of our debt and tariff policies. He admits the enormous drop

1. Ibid, pp. 58, 60

2. Ibid, p. 60

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1. Ibid, pp. 55, 60

2. Ibid, p. 60

in trade, but justly hints that such comparisons are not fair, for the figures are in dollars. The tonnage itself, though, has not decreased as dollar figures would indicate. It is not so much the loss of tonnage that concerns the world as the loss of profits. If those who produce and carry the amount of goods now involved in world trade could receive a profit on these goods, there would be much less complaint about the condition of the world's markets.[1]

In his conclusions our spokesman against cancellation contends that debt cancellation would close the export markets of the world to the United States, instead of open them, until we should lower our standards of living "to a competitive basis." Debt cancellations, instead of widening our trade in exports, would change our position in world competition to such a degree that we should be forced to make drastic tariff increases (to the point, in some cases, of absolute prohibitions on imports) in order to protect our home market.

Another individual[2] who is obviously strongly opposed to the cancellation of the war debts attempts to show that certain debtor nations are in a position to pay the United States. He states that it has never been proved that those war-time allies of the United States were not able to pay in

1. Ibid
2. Bainbridge Colby, part of the time Secretary of State in the Wilson cabinet.

accordance with the generous debt settlements.[1]

He proceeds to refer to the loans the French government has advanced to foreign nations since the end of the war. Even excluding the loan to Czechoslovakia of 600,000,000 francs, made as recently as January 20, 1932, a loan of 300,000,000 francs to Finland, and one to the Polish railroads of 400,000,000 francs, France has loaned a total of 13,277,000,000 francs! To Roumania she is reported to have advanced as high as 2,090,000,000 francs. In addition to the railway loan to Poland, France has helped that nation to the extent of the sum of 2,000,000,000 francs. To Turkey she has advanced 770,000,000 francs, and to China 23,000,000 francs. The question is asked, "Can the plea of France, that she is unable to repay the money borrowed from us since the close of the war, be expected to move us profoundly, in the light of these facts?"[2]

The economic ills, he asserts, through which the world is passing are not attributable to Europe's war debts to us, in any appreciable degree. He calls attention to the fact that since January, 1931, nothing has been paid on the debt account (his speech was reported in a May, 1932, publication);

1. Bainbridge Colby, Proceedings of Academy of Political Science; vol. XV; (May, 1932); "Should War Debts Be Cancelled? " pp, 69-70.
2. Ibid

that the rapid increase of the financial distress of the world may be considered to have occurred after that date, in which nothing was paid. Again, in dealing with the capacity of debtor nations to pay, he states that the sum of $215,000,000 paid to the United States on war debts, as the last payment prior to January, 1931, represented about one-half of one per cent of the estimated national incomes of those countries which contributed to that payment, and but 2.7 per cent of their annual budgets. For armaments they spend eight times as much as they are required to pay us on the account of war debts. The payments amount to 1.1 per cent of the entire volume of the export trade of these debtor nations. Such a percentage would not exercise a "disturbing effect" or "appreciable influence" upon world trade.[1]

There is, admittedly, one claim that should be differentiated from those that have been dinned constantly into the ears of the American public, namely, the contention that because of the fall in the general price level of goods, the debtor nations' obligations are greater than those undertaken at the time the loans were advanced. In answering this he contends there are "other variables" equally as deserving of consideration - such as the "capacity to pay."[2]

1. Ibid; pp. 70, 71

2. Ibid

Another able writer[1] on international subjects also argues against the contention of cancellationists that the war debts stand as a barrier to international recuperation. He points out that during the period of the Hoover moratorium the European nations, instead of straightening out their financial condition, became more deeply involved in financial difficulties. For instance, Great Britain went off the gold standard. France, better off economically, faced a problem in respect to her budget - a state of affairs due to extravagance.

Today France stands out as comparatively well off economically. Her climb to world financial power has been rapid in recent years. She enjoys a solvency which is denied many other outstanding European powers. France he charges with financial imperialism. The old imperialism of Napoleon has been revived by means of political - financial domination of a large part of Europe. Poincare and his successors have striven to gain power for France through financial aid to states who become subserviant to her will.[2] Under this policy the loans are made, as a rule, on the basis of defensive cooperation.[3]

The anti-cancellation spokesmen above-reviewed apparently

1. Isaac F. Marcosson
2. Specific loans have been cited from Mr. Colby's discussion.
3. Isaac F. Marcosson, The Saturday Evening Post; (Dec.24, 1932); "Gentlemen Agree"; pp. 8, 35.

stress too much the present status of the debtor nations involved. They fail to consider the problem as a whole. At present the world is only a short period of time away from the beginning of the depression. Certain resources which were plentiful during the so-called peak of prosperity have been stretched out to bridge over the lean years. But there is a limit to the stretching process. Each government, as with institutions in general, is bearing up bravely in its fiscal problems, in the hope that each new year will witness the turn of the economic tide. The more difficult the general situation grows - and it continues to be aggravated in the absence of steps which might be inaugurated for recovery by the concert of the nations of the globe - the more impoverished peoples become. Then follows the lowering of income, with the attendant loss of purchasing power. National incomes, consequently, diminish. The question is, therefore, what will be the status of the debtor nations in the future - even the near future - if the nations plead poverty now? Shall we bleed them financially now, and remove even the possibility of future payments, if our government persists in its policy of regular payments?

Modification attitudes towards the war debts seem to be little in the way of concrete proposals - the entire problem is so stupendous. Most opinion on this subject narrows down to general principles which may be summed up under the headings: (1) An indefinite debt moratorium, depending on world

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economic recovery[1]; General capacity to pay[2], with present and future prosperity of the nations in question to be judged; and (3) A consideration of the various changes in price levels, at the time the loans were made and the present, through each succeeding annual payment in the future.

A number of American men of affairs have intimated that - before it is too late - the United States should use the war debts as a "lever" to bring about the settlement of certain European problems - political as well as economic, such as disarmament and reparations. One[3] claims that the "bargaining power" of the debts is lessening as the months pass; that the question is not so much as to whether we shall keep or lose 250 million a year, but whether we shall use the "leverage"

1. "The attitude, as expressed in a letter written by Carter Glass, then Secretary of the Treasury, in December, 1919, was that until normal economic life was resumed in Europe an attempt to collect from our debtors would 'decrease their ultimate capacity to pay their debt to us.'" Quoted from F. W. Fetter, The North American Review (November, 1932); "Capacity to Pay," p. 412.
2. The same author attempts to define what he holds to be the true meaning of "capacity to pay." He says: "A country's capacity to pay a foreign debt is based fundamentally on the willingness of its people to stand taxation, and the ability of the administration to stay in power if it adopts an unpopular policy. In the case of government debts there is no such thing as 'capacity to pay,' separate and apart from willingness to pay." p. 414.
3. Mr. Shepard Morgan, who has served as Vice President of the Chase National Bank of New York.

they give us, in good season, to affect the settlement of vexing European problems that, once settled, would contribute toward general world recovery. Another[1] reminds us of political obstacles in the way of these settlements; that high officials of one country which has a financial problem to settle with another country often are handicapped (although personally broad-minded in judgment) by the narrow attitude of the taxpayers they represent.[2]

A modificationist[3] who speaks for the agricultural interests of the middle west contends that wheat, even more than steel, is the "barometer of trade"; that it reflects farm health better than anything else; and that a remedy for the wheat problem would be a cure for all problems. This gentleman conducted a most interesting experiment with a wheat graph. It registered various world economic and political conditions or events. But none of these was "coincident with" the major movements in wheat prices.

Later he had occasion to draw up a gold export and gold import graph. This graph revealed a decided relationship between the movement of gold to and from America and the price of wheat! With few exceptions, the great wheat-price movements

1. Mr. Eliot Wadsworth, formerly Assistant Secretary of the Treasury and Secretary of the United States World War Foreign Debt Funding Commission.
2. Proceedings of Academy of Political Science; Vol. XV; (May, 1932); "The Political Aspects of War Debts and Reparations"; pp. 106-107.
3. Mr. Charles C. Isely, a lumber and grain merchant of Dodge City, Kansas; a distinguished citizen of that state.

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took place without relation to crop news or grain shipments. On the shipment of gold to the United States, invariably wheat suffered a drop in price. To this individual the modification of the present debt settlement would mean the removal of an artificial barrier that hinders the restoration of wheat to its former position. And wheat, he claims, can lead the procession to better times.[1]

An outstanding authority[2] on world economic conditions presents his reasons for a modification policy. He points out that although America's motives for fighting in the World War were less compelling than those of France that America did have interests. The United States profited by developing a "fuller sense of nationhood," and by establishing for herself a "place of great influence and authority in world affairs." The dominant motive, though, was to save Europe and France. Thus, the countries who fought together in the war were engaged in a common cause; they were "partners with unequal interests." This alone, he admits, cannot support a claim for complete cancellation," but it does suggest modification of the original agreements.[3]

1. Charles C. Isely, <u>Proceedings of Academy of Political Science</u>; (May, 1932); "Political Debts of All Nations and Their Relation to Depressed Agriculture," pp. 78-83.
2. Sir Arthur Salter, formerly Director of the Economic and Finance Section of the League of Nations. He has been in a position, as few men have, to observe world conditions from the international viewpoint.
3. Sir Arthur Salter, K.C.B., <u>Recovery</u>: <u>The Second Effort</u>, p. 179

He, too, calls attention to the fact that the loans raised in America were used to purchase supplies there; that this spending served to contribute to the economic prosperity of the United States, and, as a consequence, part of the profits went into the Treasury through the channels of taxation. Because of war demand leading to a scarcity of certain supplies, prices were inflated to a higher level than twice the pre-war or present level. If the debtor country paid in full, therefore, it would be "paying more than twice in real value in goods and services, what it received, in addition to interest, itself similarly more than doubled in value and burden."[1] Thus our esteemed British friend pleads for modification from the standpoint of the <u>common cause</u> argument, of the profits derived by Americans in war contracts, and of the changes in general price levels.

1. Ibid; p. 180

CHAPTER III

THE SHIPMENT OF GOODS OR THE SELLING OF SERVICES BY OUR DEBTOR NATIONS NECESSARY IF DEBTS ARE TO BE PAID

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An individual with simply an elemental knowledge of economics knows that a nation paying huge sums of money to another nation does not draw that money "out of the air." That money must be accumulated through the process of constructive effort. He realizes that if annual payments over a long period of time on a particular debt are made out of national taxation, without the business interests of that nation having recourse to a generous volume of world trade, national impoverishment will set in. There has to be some way in which money is brought into that country - if that nation is to continue to pay out to other nations. The inevitable conclusion is that the payment of these debts depends on the ultimate <u>shipment of goods</u> or the <u>selling of services</u> to the creditor country, or some country receiving the currency of the creditor country.

Up until the World War the larger part of American exports was carried to world ports in the vessels of foreign registry. Great Britain, for example, profited well by sharing in a large portion of this carrying trade. In fact, not a small part of her national income is derived from the selling of her services in world trade. But, since the World War our increased national consciousness, apparently, has led to agitation for the building up of our own merchant marine. Business leaders probably saw a chance to make a few more dollars. Our high governmental officials concluded it was a patriotic duty to make ourselves self-sufficient in the carrying trade; that America should regain

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her one-time proud position of possessing a merchant marine of importance. The United States government has seen fit to experiment in the subsidizing of various American steamship lines. The cry has been for a merchant marine independent of other nations, in case of war; national safety and our place in the sun demand it. Our shipping interests have succeeded to a marked degree in building up a carrying service that has reduced, greatly, the activity of other nations in this field - particularly Great Britain. Therefore, the chance of debtor nations to earn American dollars from this source has been almost eliminated.

Again, before the late war, immigration to the United States was comparatively unrestricted. Hundreds of thousands of foreigners entered our shores annually. The steamship lines of foreign nations which engaged in transporting these immigrants added, thereby, to their earnings. Over here in the United States, these immigrants sent remittances in American money to their European relatives, making possible one source of American dollars to the debtor nations. Post-war trends decreed that this unrestricted immigration be limited. A new immigration policy was advanced by the party in power in Washington. Legislation followed that narrowed the once-tremendous stream of humanity which sought better living conditions in a land proclaimed as "flowing with milk and honey" to proportions that seem negligible in comparison. The transportation of immigrants to the United States for a few years now has been an almost profitless undertaking, as compared to the days before the new immigration laws.

We are obliged to rule out this field of service and possible means of gaining American dollars - that is, of any consequence - by our debtor nations.

There remains yet, though, one other source of American dollars, aside from the shipment of goods. Unlike the carrying trade and the transport of immigrants - experiencing their halcyon days before the war in relation to the United States - the travel of American tourists on foreign strands tended to increase after the war. Evidently the unprecedented movement of troops from our country to Europe during the war and the consequent closer political and trade relations with our allies stimulated the desire on the part of Americans for world travel. It might not be out of place to draw a parallel with the Crusades. Our soldiers on returning from new lands - with their fascinating modes of living and natural wonders - no doubt gained the interest of those at home by accounts of their travels. These, in turn, became desirous of seeing for themselves the various places and peoples described. Then there are those among the wealthier classes who travel just for the change, the possible recreation it may afford. They spend freely, as a rule, in the shops. All classes of tourists are obliged to spend for transportation and for food and shelter. The transportation lines of these foreign countries have employed every means to induce Americans to travel abroad. Competition among these lines has been particularly keen. The business resulting from the presence of Americans abroad has been especially lucrative since the war.

Before the depression it was estimated that income to Europeans from American tourists reached a mark as high as hundreds of millions of dollars annually. It is only during the past two or three years that this tourist activity has dropped off materially. This source of American dollars has been reduced, and is being reduced increasingly fast.

Since services in the carrying trade between foreign nations and the United States and services in the transportation of immigrants between the same countries have been so reduced as to no longer figure as a source of American dollars to our debtor nations, and the expenditures of American tourists have so decreased as to be a negligible factor, there is only one source of American money which remains. These debtor governments must be able to sell goods to the United States or to the rest of the world. In other words, their ability to pay is contingent on world trade. Common sense dictates such a conclusion.

The peoples of these debtor nations must sell something more than they ordinarily would sell; they must accumulate, either directly or indirectly, more dollars than would be necessary under the condition of owing no debt to the United States. An alternative is to buy less of the world's goods, or consume less than usual.[1] A surplus which can be converted into dollars for payment must be available. If they resort to the alternative of buying less goods of the world, they are faced with the undesir-

1. National Industrial Conference Board, The Inter-Ally Debts and the United States, p. 106.

able possibility of lowering their present or future standards of living. Such a course, most assuredly, would tend to hinder world economic recovery.

CHAPTER IV

TARIFF BARRIERS SET UP BY THE UNITED STATES

CHAPTER IV

We state that our debtor countries must accumulate American dollars with which to repay the loans we advanced by the selling of goods to the United States or the rest of the world. Theoretically such a course works out admirably well. What is the practical side of the point under consideration? We are forced to face the lamentable fact that under present conditions the shipment of goods for American consumption is limited - decidedly limited. (And here we meet a problem that is world-wide in scope.) In other words, the United States has resorted to the setting up of tariff barriers.

Numerous writers have pointed out the naked truth that the United States, while insisting on the payment of the war debts, have turned around and set up tariff walls to make the accumulation of American dollars in necessary amounts well-nigh impossible by debtor governments! Senator Borah, in speaking before a crowded Senate on May 5, 1932, reminded the American people that the United States virtually has refused to accept goods in payment through the operation of her tariff policy[1].

One writer states: "The strain which these payments produce is not only the strain of raising the payments, but also the strain of transmitting the proceeds to the United States. The high American protective tariff makes it difficult for the European debtors to sell their products - chiefly manufactured goods - directly to our markets; and the general high level of

1. Contemporary Review (June,1932)," Foreign Affairs," p. 792.

the existing tariffs in many other parts of the world makes the whole problem of profitable exportation much more difficult than it was before the war."[1]

Another writer realizes that we can throw good money after bad; "as spending two dollars to collect one, which as everybody knows is not a remunerative operation. Also there is such a thing as behaving toward your customers who owe you money and cannot pay, in such a manner and spirit as to make them not only default on their bills but take their trade elsewhere. Nobody who depends for his livelihood upon the good will and continued trade of a great community, or a little one either, can afford to do that; yet up to now that is the general atmosphere of the war debt situation as a whole. Moreover by our tariff policy we have made almost impossible payments in the only form in which our debtors can make them....."[2]

Other writers advance similar views. Says one, "We as a people hastened to increase our stake in Europe by billions of dollars but meanwhile we erected barbed wire entanglements against the trade of those who owed us money. When the year 1930 dawned, we began to get rude practical demonstrations of the erroneousness of our method. Retaliatory tariff barriers commenced to appear..... 'I venture the statement,' said Mr. Young, 'that we shall have to reduce competitive trade barriers

1. James W. Angell, Foreign Policy Reports, vol. VII, no. 4, (April 29, 1931), "Reparations and the Inter-Ally Debts in 1931," pp. 95,96.
2. John Palmer Garit, Graphic Survey (Nov. 1, 1932), "Of War Debts and Other Menaces," p. 556.

to preserve the world's sanity.'"[1]

Still another denounces the tariff policies of the world in stating that "it is an obvious fact that tariffs, especially when all nations impose them and retaliate, hamper trade and complicate 'exchange'. How can the United States insist on repayment of the war debts, interest and principal, and try to prevent the only real payment, which is in goods?"[2]

Foreign debt authorities as Dr. Max Winkler and Maxwell S. Stewart join the list of those who strongly air their views on this subject: "Aside from gold payments and the possibility of securing new credits, debtor nations can meet their obligations only through the export of goods or by services. But, as is the case in regard to gold and credits, the policy of the United States and France, as well as other creditor nations, has tended to make repayment by these methods difficult. Tariffs have been raised continually in this country and abroad, with the avowed object of keeping out foreign goods as much as possible. The result has been a marked restriction in foreign trade, and a tendency to overproduction, behind tariff walls."[3]

After we began to tinker with our tariffs, following the war, other nations began to raise their tariffs - more generally the war debtor governments. They were really obliged to fight

1. Editorial, The Commonweal (Nov. 23, 1932), "Getting to the Bottom," pp. 85,86
2. Edward T. Root, The Christian Century (Nov. 30, 1932), "Can We Afford to Be Paid?" p. 1468
3. Foreign Policy Reports, vol. VII, no.22, (Jan. 6, 1932), "Recent Defaults of Government Loans," pp. 397-398.

for increased exports, in order to secure the money of creditor nations. This condition tended to bring on a "competition of receding prices." At the same time the increase in tariff barriers lowered the amount of imports as well as exports. The lesson the United States should have learned - that nations which cannot sell are in no position to buy - apparently has not been properly recognized. The decrease in trade, the fall in prices, combined with increased tariffs, reacted unfavorably on each other.[1]

Mr. Bernhard Ostralenk, author of numerous works on economic subjects, also points out that the Americans have not recognized the principle that we must import more than we export; that we insist on the payment of the debt in full, yet we set up tariff obstacles that prevent payment in full. He claims that on two occasions the tariffs have been raised deliberately to narrow down imports, imposing greater burdens on the already-suffering debtor nations endeavoring to make payment.[2]

Mr. E. F. Gay, another author on economic subjects, falls in line with the rest in submitting his observations on our tariff policy: "What has especially aggravated the European feeling about the war debts has been the American tariff. This has been held responsible for the relative decline in the imports from the European debtors to the United States. Supplementary causes

1. C. T. Revere, Review of Reviews (January,1933), "War Debts and Commodity Prices," pp. 33,34.
2. Current History (January,1933), "The Dilemma of the War Debts," p. 418

may be found for the general decline in the imports of European commodities into the United States from the 48 per cent total imports in 1913 to the 30 per cent of recent years..... But the fact remains that the narrowly nationalistic policy of the United States, as exemplified again in the tariff of 1930 - inexcusable from an economic point of view and definitely harmful from a broader national standpoint - has been one of the great complicating and accelerating factors in the cumulation of abnormal balances and rigidities which brought the world to the Great Depression."[1]

It would be impossible to present a more distinguished, recognized authority on the American tariff question than Mr. Cordell Hull (now Secretary of State), who states that the world trade this year (statement made in 1932) should be more than $50,000,000,000 on the basis of the "pre-war rate of increase." Instead, this trade will be less than the "relatively trifling" amount of $15,000,000,000. He says that one can hardly imagine the "heavy network of tariff and other obstructions and impediments," at the present, that stand in the way of the "transfer of capital, goods and services across international frontiers." Such transfers should be largely profitable to all concerned. Every country, he continues, is loaded with surpluses which other countries can use; that because of this "drying up of world markets and world trade" the debtor nations cannot pay

1. Foreign Affairs (July, 1932), "The Great Depression," p. 540.

their debts in services or goods - preventing them now from either going back to the gold standard or, in some other way, making stable their monetary situation.[1]

"Doubtless the American tariff is an obstacle to the establishment of a favorable balance of trade by Great Britain with America; but, right or wrong, it has long been the American theory - now apparently accepted and practiced by all the other countries too, including Great Britain - that tariffs are necessary to give a home market for our home industries."[2]

In the winter of 1929-1930 the League of Nations made an attempt to bring about freer trade. A Conference was called to draw up a treaty for a "Tariff Truce" for a period of time that would allow for the preparation of an "ambitious" plan of "actual reduction." All nations received an invitation to this conference. It finally narrowed down to a European conference. The direct results were slight. The convention drawn up failed of ratification. The same conference endeavored to put through a convention to "remove 'prohibitions' and to secure 'Equal Treatment for Foreigners.'" But these efforts failed. However, these attempts were not devoid of some good results. It is a fact that during these years the major increases in industrial tariffs were made by those governments outside Europe which did not take part in this conference.[3]

1. Senator Cordell Hull (Tennessee), The Literary Digest Political Cyclopedia, "Tariff and Commercial Policy," p. 165.
2. Editorial, The Christian Century (Dec.14,1932), "The Debts are Part of a Larger Problem," p. 1532.
3. Sir Arthur Salter, Recovery; The Second Effort, p. 203.

Other authorities who have devoted special study to economic trends might be added to those already reviewed to support the judgment that the United States, while insisting on full debt payment, is closing the door to the shipment of goods from debtor nations by the setting up of trade barriers in the form of high tariffs. In many cases tariffs deliberately have been raised on goods from these countries, our government aware that these nations must build up a surplus of exports, must procure American dollars.[1] Is it little wonder that those men who have been referred to have spoken in no uncertain terms? We Americans pride ourselves on our idealism, yet we would permit our government, for the sake of a narrow, selfish, nationalistic policy, to bar the way to a certain measure of world recovery through trade channels. Surely our representatives and senators in Washington realize that the tariff walls for which they are really respon-

1. Between 1920 and 1925 our leaders in political life were anxious as to the outcome of the debtor nations' endeavors to liquidate their debts. It was feared that our markets might be "flooded by goods with costs based on depreciated currencies." To ward off any such possibility our Congress passed the Fordney-McCumber tariff, which was signed by President Harding in September, 1922. This move virtually informed the world that the war debt payments to the United States could not be made by shipment of goods.

   C. T. Revere, Review of Reviews (January, 1933), "War Debts and Commodity Prices," pp. 33-34.

   In 1930, Congress passed the Hawley-Smoot tariff measure, which raised the general level of tariff rates.

   Sir Arthur Salter points out that this tariff was a "turning-point in world history," for it served to "check just the extra imports which the normal correcting process (that is, the proper amount of imports for creditor countries) is bringing in."

   Sir Arthur Salter, Recovery; The Second Effort, p. 198.

sible serve to retard, to a serious extent, the normal flow of trade between America and her numerous debtor governments. Must we conclude that the international viewpoint - mutual regard for the interests of all nations and peoples - is, in our land, sacrificed to the industrial interests? Impartial observers would concede unhesitatingly the point that the United States and her debtor governments would derive mutual gain by a downward revision of the tariff. Every nation of the globe of any consequence would have to enter into any scheme of revision for the success of such an undertaking.

A movement is now under way to strive to achieve this goal, for President Roosevelt, on April 12, 1933, while making his first speech on the subject of foreign affairs, appealed to the nations of the American hemisphere to support a movement to reduce artificial barriers to world trade. He states:"It is of vital importance to every nation of this continent that the American governments, individually, take without further delay such action as may be possible to abolish all unnecessary and artificial barriers and restrictions which now hamper the healthy flow of trade between the peoples of the American republics."

On the same day the representatives of 42 foreign governments dispatched from Washington cablegrams to their home offices containing the invitation of the United States government to discuss, through diplomatic channels, their views on world problems.[1]

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CHAPTER V

THE DEBTOR NATIONS MUST EXPORT MORE THAN THEY IMPORT: THE UNITED STATES, AS CREDITOR, MUST REVERSE HER PRESENT TRADE POLICY

CHAPTER V

In the final analysis of the inter-governmental debt complications we are obliged to agree with the statement that international debts the size of the present war debts cannot be paid unless the debtor nations export more than they import. For any debtor nation to attempt to pay a foreign creditor nation such sums, as involved in the present war debts, from its gold supply would spell ruin to its monetary system and generally disorganize its economic stability. Payments to foreign governments must be made in foreign exchange, procurable only by the selling of goods to the foreigners involved or by the selling of services. It is obvious that any nation, in order to maintain its proper economic life, must have a surplus of exports to cover its purchases of necessary imports. How much greater this surplus of exports should be if huge war debts are to be paid in full!

The debtor nations fully understand that their exports must be greater than their imports, if the war debts are to be paid. With the avenues of trade so restricted that these nations are unable to accumulate a surplus of dollars, they have resorted to the curtailment of their imports. If their exports maintain their present volume, their imports might so diminish that exports gradually would exceed the imports. Thus a national surplus would be built up for debt payments. But national consumption could be so reduced, as would be the case if imports decreased to a great extent, that the standards of living of whole nations would be lowered. This situation, no doubt, would tend

further to retard the trade essential for world economic well-being.

Now the payment of the war debts involves extraordinary difficulties for the creditor nations as well as the debtors. Since the world's gold supply would cover less than one-half these war debts, the debtors, as has been pointed out already, can pay the United States only in goods and services. The gold supply in the central banks of forty-five countries up to the end of 1932 has been estimated as $11,000,000,000. Of this amount the United States holds over $4,000,000,000.[1] The inevitable conclusion follows that if the United States recognizes that her debtors can pay her only in goods and services, she must import more than she exports. The very thought of such a radical departure from her historical position staggers one. Such a move would mean a reversal of the American economic system. For a few decades we have enjoyed a favorable balance of trade.[2] Our industries have been fostered by protective tariffs. American business has displayed aggressiveness in penetrating the markets of the four corners of the globe. Exports, up to the time of the present slump, were on the increase.

The question has been raised as to whether insistence on the payment of the debts would present the necessity of great changes in the economic life of the debtor nations - providing the United

1. Bernhard Ostralenk, Current History (January, 1933), "The Dilemma of the War Debts," p. 417.
2. Between 1870 and 1880 our exports began to exceed our imports.

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1. Bernhard Ostrolenk, Current History (January, 1933), "The Dilemma of the War Debts," p. 417.
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States reversed her policy of an excess of exports over imports. Would such a step cause the debtor nations to force exports "beyond their economic limits in order to obtain adequate surpluses" that they may "buy dollar exchange" with which to pay their debts?[1] Would our creditor countries be capable of holding up their end of the deal?

Would it be possible for debtor nations to gain dollars indirectly? The suggestion has been made that Great Britain may not have to export a surplus to the United States; that payments may be made indirectly. For example, Great Britain might sell manufactured goods to Brazil. The surplus of exports to Brazil from Great Britain would be used to pay for those goods imported from Brazil into the United States. This system has been worked out. The fact still remains that the debts would have to be paid by goods. Such a system would necessitate the reduction of American exports to Brazil because of the increased British exports to that country. Brazil would gain the favorable balance of trade, instead of Great Britain. This method leads to but the shifting of the favorable balance of trade. United States would still be faced with the necessary step of importing more than she exports.[2]

Most peculiar is the position of the United States as a creditor nation. We came out of the war as the outstanding creditor nation in all history. Yet we were so situated as to

1. Ibid; p. 417
2. Ibid; p. 418

be unfitted to play our part as the great creditor nation. Our role dictates that we should be "intrinsically situated to be a buyer of the products of other nations" that they may not only repay our loans to them but that they may also be able to buy essential goods.[1]

(It is of interest to note that if Great Britain had emerged from the late war as the chief creditor nation, she would have offered markets "for all varieties of foodstuffs and raw materials." Only a small portion of these foodstuffs and raw materials is raised within the limits of her territory.)[2]

The matter of "exchange" presents a serious problem in the transfer of goods in international trade. Were it necessary for foreign importers to ship gold in payment, they would be obliged to pay both freight and insurance. Since some of their own citizens have sold goods to importers in the United States, there is approximately an equal transfer on both sides. These obligations can then be "exchanged by 'drafts' at par, since the advantage is mutual." In the case, though, that one country owes considerably more than is due from it, debtors then "bid against each other for drafts, and 'exchange' rises." It is obvious that when the premium on this "exchange" exceeds the expense of freight and insurance, it is cheaper to send gold in payment. If gold is shipped, though, the danger arises that the currencies of

1. C. T. Revere, Review of Reviews (January, 1933), "War Debts and Commodity Prices," p. 33.
2. Ibid.

the nations involved will be upset. The country receiving the gold experiences a rise in prices, while the one shipping the gold sees its prices fall. There can be no restoration of normal conditions before differences in prices lead a certain number of importers in the country receiving the gold to buy in the country sending the gold. Thus, through the exchange of goods, gold is drawn back to the latter country, and exchange is restored to par again.[1]

"The transfer problem, arising from the difference of currencies among nations and the necessity of paying debts in gold, affects private foreign debts as much as war debts. It ever has its counterpart in the effort to discharge domestic indebtedness. For just as Great Britain, though she may have sufficient sums in pounds, finds it embarrassing to buy the necessary dollars, so the wheat farmer has plenty of bushels of grain but finds them sadly depreciated in terms of currency. In both cases the difficulty may be traced back to an unbalance in the exchange of goods and services."[2]

1. Edward Root, The Christian Century (November 30, 1932), "Can we Afford to Be Paid?" p. 1467.
2. Editorial, The New Republic (November 30, 1932), "World Debts and Domestic Deflation," p. 58.

CHAPTER VI

THE IMPORTANCE OF THE AMERICAN EXPORT TRADE

CHAPTER VI

If the United States should build up an excess of imports over exports, she would be forced to make radical readjustments in her economic life. An unfavorable balance of trade would spell the loss of an important and essential foreign trade. This loss would result in a domestic upset of no small proportions. Upon this trade depends the prosperity of certain American industries.

The value of American exports has been given as being less than 10 per cent of the total production of our agricultural and industrial interests. In 1929 our exports amounted to over $5,000,000,000 in value. It has been contended that we could get along without this trade; that the loss of this trade would not cause anything more than a ripple on the surface of our economic activity. Some writers suggest that we could drop this 10 per cent - the 5 per cent, at least, that we carry to Europe; that this loss could be regained by expanding our domestic markets. The figure 10 per cent is grossly misleading. The American public apparently remains incorrectly informed.[1]

It should be borne in mind that the 10 per cent figure so often quoted is only a <u>general average</u> of "all our production and trade," much of which is "purely domestic in character." It fails to reveal the importance of exports in a number of outstanding fields of production and manufacture. We can grasp

1. Harold G. Moulton, <u>Yale Review</u> (Autumn, 1932), "The American Stake in the War Debts," p. 91.

readily the vitalssignificance of this trade when we face the fact that cotton, wheat, tobacco, lard, copper, petroleum products, automobiles, and machinery make up approximately three-fifths of our entire exports; that the percentage of these products exported greatly exceeds, with most items, the 10 per cent figure! In 1929 Americans shipped abroad 54.8 per cent of their cotton; 41.2 per cent of their production of tobacco; 33.3 per cent of lard; 36 per cent of the copper mined; 31 per cent of the lubricating oils; 23.3 per cent of the agricultural machinery; 20.8 per cent of the locomotives manufactured; and 14 per cent of the passenger automobiles turned out;[1] besides, 17 per cent of the wheat produced. Can anyone fail to realize that the loss of this trade would affect seriously the agricultural interests producing the above-mentioned raw products,[2] and the industrial plants engaged in the production of those manufactured goods, besides the copper and oil producing industries?

It is pointed out that the price of wheat, of which less than 18 per cent is exported, is influenced "profoundly" by foreign demand. The price of tobacco and cotton is "fundamentally dependent" upon foreign demand. Of course these prices are influenced by fluctuations in the domestic demand. But, one authority claims, the "decline in the foreign demand alone could

1. Ibid; pp. 91-92.
2. "In brief, the abolition of our export market would destroy from one-fourth to one-half of our agricultural activity. A large part of the present depression, in fact, may be attributed to the disappearance of the export market for agricultural products."
   Bernhard Ostralenk, Current History (January, 1933), "The Dilemma of the War Debts, p. 419.

readily make the difference between 16 and 6 cent cotton, and 70 and 50 cent wheat."[1]

We ask, would it be possible to so increase the domestic demand for these goods as to offset the loss of the foreign demand? The thought of such a transfer of buying is unreasonable. Could the American people be forced to buy in much greater quantities goods that they really do not require? True, there might be a certain increase in demand because of the natural result of a fall in price.[2] But how could an increase in demand for the goods diverted (supposedly) from foreign trade be sustained with a serious curtailment of American purchasing power?

The agricultural and industrial interests which supply the products above-discussed are so situated as to be able to provide for an enormous foreign demand, besides the domestic needs. <u>With production for export highly developed, and the domestic needs amply provided for, the loss of this foreign trade would mean nothing less than the throwing out of employment of vast numbers of American people</u>. In fact, whole sections of some areas would be affected. Certain Southern states, in particular, would suffer, with the decided limitation of markets for cotton. (In 1929, we exported 54.8 per cent of our cotton.) People in the tobacco sections of the country would be obliged to endure unemployment and consequent loss of local trade. (Of our total production of tobacco, 41.2 per cent we shipped abroad in 1929.)

1. Ibid; p. 92
2. Ibid

It would seem that those areas devoted to the production of agricultural products would suffer most. Whole counties, even, confine their efforts to the raising of one product. This would result in general unemployment in those areas. Those engaged in the manufacturing of machinery probably would not be affected so seriously (from the standpoint of one-sided production in a large section), for manufacturing plants are scattered more or less over the country. The mining of copper, often, is combined with the mining of other metals. In this line it is less likely that a large area would be crippled by curtailment of production as in some other lines. Geographically, the oil industry is quite well spread out. The aggregate unemployment that would follow all over our country from the great decrease in production, because of our loss of foreign trade, would result in the general impoverishment of a large part of the American buying public. An appreciable proportion of American purchasing power, therefore, would be paralyzed. <u>Domestic markets, consequently, would experience a serious loss of trade</u>.

The decrease in domestic trade in large areas of the country would injure business in general, and lead, no doubt, to economic disorganization. Numerous banks might fail. The investments of the public would be impaired. In the end the great American public would be the losers. With the reduction of national income, governmental income would diminish. The burden of taxation would fall upon a smaller number of people.

The question naturally arises as to whether the labor and

capital now employed in the production of foreign exports can be transferred to other fields of production, the products to be sold in the domestic markets. A country so rich in resources as ours, one might think, should be able eventually to stabilize its economic life, after the loss of a large portion of foreign trade, to the point of experiencing independence of foreign markets. Theoretically such readjustment is possible, but from the standpoint of practical accomplishment this reorganization would present great difficulties. One of the chief obstacles to the working out of such a plan - without serious delay - lies in the fact that already we are prepared in most lines to produce those goods we require for immediate domestic consumption. There is at present no field of production that could be enlarged further as to allow the employment of the labor and capital from other fields. We are reminded that in agriculture we have for a number of years attempted to reorganize along similar lines; that this resulted in "little success" even during the period of expansion. Doubt is expressed as to whether the economic system of our country could live through such a readjustment.[1]

"It is clear..... that the interests of the farmers of the cotton, tobacco, grain, and livestock producing areas of this country would be promoted by anything which tended to increase the purchasing power of the markets of Europe. It is also clear that it is to the interest of workmen in industries which make goods for the export trade, or for sale in the agricultural

1. Ibid; p. 93

sections of this country, that European markets should expand. Similarly, it is to the interests of financial and trading groups whose solvency is dependent upon a return of prosperity in these great producing areas that European recovery be promoted."[1]

It is almost needless to state that it is an idle hope to expect the American business interests to submit to a reversal of the American commercial policy. Outside of the technical difficulties, which have been reviewed already, there exist psychological factors to be considered. Our present commercial system is linked up profoundly with American business life in general. Our prosperity depends on a favorable balance of trade. It would be preposterous for anyone to expect man to agree docilely to a plan that would involve a change from accustomed luxury to that of a condition of possessing much less of the world's goods. Who would be rash enough to credit the American public with the altruism to adopt a policy that would spell, in a measure, its impoverishment? We must rule out, then, the possibility of the adoption of such a principle as the building up of an excess of imports over exports by the American commercial interests.

1. Harold G. Moulton, Yale Review (Autumn, 1932), "The American Stake in the War Debts," p. 95.

CHAPTER VII

ECONOMIC AND PSYCHOLOGICAL CONDITIONS FACING

OUR DEBTOR COUNTRIES

CHAPTER VII

What, now, is the economic condition of our European debtor nations? These nations cannot "create the facilities and means" with which payments may be made abroad. The amounts of the debt payments have to be converted into the currencies of their creditor governments. The "means of this conversion" has to be provided by the money passing through the avenues of commerce and finance between the nations of the world. The debts must be paid from the foreign exchange which accumulates from foreign trade.

But where is the export trade of these European debtors? If we have suffered a shrinkage in our foreign trade because of tariff barriers, isn't it just as true that our debtor countries have sustained a decided drop in exports because of tariff walls? This means, also, that our debtors have suffered a loss in national income. This general national impoverishment has rendered the payment of debt instalments more burdensome. Problems of taxation have arisen. Difficulties have surrounded the balancing (or the attempted balancing) of national budgets. Monetary systems have become upset. Foreign exchange has grown unstable.[1]

All in all, the debt problem presents the principle of the "vicious circle." Our debtor nations must have access to a

1. Debt payments involve the 'transfer' problem increasing the "real burden to the full extent of the fall in world prices of articles entering into international trade." Sir Arthur Salter, Recovery; The Second Effort, p. 172.

certain amount of foreign trade in order to build up a national surplus of wealth for debt payments. On the other hand, the necessity of debt payment has acted to make these same Europeans "poorer customers for new production," thus reducing the volume of world trade. By insisting on the full payment of the debts, then, we are informing our debtor nations that they must "pull themselves up by their own bootstraps!"

The continuation of debt payments under the latest settlement plan has served to disturb world markets. This influence has been felt more by the wheat and cotton (world staples) markets. On the transfer of debt payments, or the expected transfer, even, wheat and cotton prices decline. The value of the pound sterling in dollars declines when debt instalments are paid, making it necessary for Great Britain - for instance - a large user of American wheat and cotton, to pay more in pounds to purchase these products. Therefore, Great Britain must buy less from us than she has before. That we might be able to "export as much as before in competition with Indian and Egyptian cotton sold on a sterling basis or Australian and Canadian wheat likewise sold on the basis of depreciated currency," our gold prices must be reduced.[1]

The war debt situation has given rise to a psychological attitude on the part of our debtor nations that we cannot afford to ignore. There is reason to believe that our refusal to re-

1. Business Week (Dec. 7, 1932), "War Debts - World Prices," p. 5.

consider the debts would result in a feeling of "resentment and bitterness" which would endanger the foreign markets still open to us. These channels of trade might be closed by the setting up of higher tariff walls. Or a "direct anti-American feeling" might cause the buying public of our debtor countries to refuse to buy American goods. Such action would imperil world peace.[1] The depression cannot be ended by a reasonable settlement of the debt problem, but it would be a "great step toward the appeasement which is necessary for recovery. The steady exacerbation of international feelings resulting from a settlement of reparations and debts which was not a settlement reveals in a clearer light the fundamental error of continuing the economic war after peace had been signed. It has added continuously to post-war insecurity."[2]

There appears to be a growing conviction among students of international affairs that the adjustment (preferably complete cancellation) of the war debts is the key to international good-will and confidence.[3] We are reminded by one writer that "speaking generally, a debtor nation does not love its creditor."[4] The peoples of these debtor nations entertain the attitude that their progress is being seriously hampered by these debts. Many among

1. The Nation (November 23, 1932), "War Debts Versus Recovery," p. 491.
2. E. F. Gay, Foreign Affairs, July, 1932, "The Great Depression, p. 540.
3. The writer, in his wide reading on this subject, is led to make this statement.
4. A. E. Martin, History of The United States, vol. II; p. 701.

them believe that they are paying tribute to a foreign government. The foreign press in control of the so-called "superpatriots," no doubt, spreads such dangerous propaganda, which is accepted largely by the ignorant classes. With some, it is said, the debts are regarded as a "limitation upon national independence." It seems that they "carry the suggestion of ..... national inferiority, and persecution. As one writer puts it: 'No democratic government can live, which assumes in the eyes of its people, the guise of a mere collecting agency for foreign creditors'."[1] There is little doubt that the debt problem is responsible for the general European feeling toward the United States that we are the "great commercial rival and financial dictator" of the nations of Europe.

1. Bainbridge Colby, Proceedings of Academy of Political Science; vol. XV;(May, 1932) "Should War Debts Be Cancelled?"; p. 72.

CHAPTER VIII

THE STATUS OF THE AMERICAN TAXPAYER IN THE EVENT OF COMPLETE CANCELLATION

CHAPTER VIII

It is an obvious fact that further debt concessions would result in the transfer of the tax burden from the peoples of the debtor nations to the taxpayers of our own land. The American taxpayer would be obliged to make up the amount canceled.[1] If our government should adopt a policy of complete cancellation, just what would be the so-called "burden" on the American taxpayer? The figure has been estimated variously as between two and three dollars per capita for each year covering the present debt settlement period. The greater number of writers consulted agree on the approximate amount of two dollars per capita. Of course this extra "burden" would fall inequally on the American public.

Certain sections of the United States would pay more of this tax than others. One author judges from press dispatches from various parts of the country that the chief opposition to a readjustment of the war debts comes from the Southern and Western agricultural districts. Yet, the thirty-two states of these areas are the ones that would be obliged to shoulder a smaller share of this tax than the remaining sixteen states. The thirty-two states represent one-half the population of the United States, or about 60,600,000 people. What is their contribution to the federal treasury in the form of direct taxes? Mr. C. T. Revere says that for the fiscal year ended June, 1931, they paid,

1. The Business Week (November 23, 1932) intimates that war debts and reparations are "no longer actualities," and, that it is time we admit that the American taxpayer will have to take upon his shoulders the "final writing off" of these debts. "War Debts and Business," p. 4.

approximately, 19½ per cent of the total revenue taxes levied on incomes and corporations. This would subject them to an added tax of only about 78 cents per capita, if the debts were completely canceled. This amount, it is pointed out, would be approximately one-fifth of the extra tax which would be placed on the remaining sixteen states of the Union, which are more favorable to a reconsideration of the debt question. Since the greater part of these direct taxes "fall upon merchants, manufacturers, oil producers, etc.," not much of this extra tax would fall on the agricultural interests.[1]

Mr. Revere goes on to make an interesting study of how these thirty-two states would profit by the complete cancellation of the debts. He informs us that raw materials and foodstuffs, in normal times, made up the chief items of our exports; that even now they hold a dominant place in our overseas trade. The above-mentioned thirty-two states "produce 63 per cent of the nation's meat products, 73 per cent of exportable grains, all of our cotton, practically all of our copper, and 95 per cent of our petroleum."[2] With a restoration of world trade these same states would benefit most. "An advance of 2½ cents per pound in cotton would mean over $160,000,000 increased value for a thirteen million bale crop. An advance of 20 cents per bushel in wheat would add $130,000,000 to the value of a crop of 650,000,000 bushels."[3] He offers more figures to show the gains

1. C. T. Revere, Review of Reviews (January,1933), "War Debts and Commodity Prices," p. 34.
2. Ibid
3. Ibid

that would accrue in commodity prices to some of these states individually. And a recovery in commodity prices would be forthcoming, he justly points out, for "one of the chief contributory causes of the present low commodity level is the dislocation of exchanges arising from the necessity of making payments in dollars to the United States."[1]

While considering the American taxpayer it would be enlightening to ponder on the loss in income of our citizens during the past few years - a loss ascribed, in part, to the complexities of the war debt problem by numerous writers. One writer states that the total income of the Americans in 1929 was about $85,200,000,000. The income for 1932 Bradstreet's has just estimated as $37,500,000,000. About a third we should allow for the fall in commodity prices. So, our national income "in terms of goods" at the price level of 1929 is placed at about $56,200,000,000. This represents a loss of national income of at least $29,000,000,000 a year. The loss of $280,000,000 annually from the cancellation of the war debts would represent less than one one-hundredth of this loss in national income![2]

A noteworthy comparison is made by the same writer in applying these figures to the individual. The per capita national income of 1929, which was $704, dwindled to $300 in 1932, or "in terms of goods" to about $450. The federal expenditures for 1933 are estimated as $3,300,000,000, or 26.40 per capita. With the

1. Ibid.
2. The Nation (December 14, 1932), "War Debts and Taxpayers," p. 582.

full payment of the annual instalments of war debts this quota would be reduced by $2.24. The writer then raises a few queries. "Is it better for that taxpayer to have an income of $704, and pay $26.40 of it in taxes, or is it better for him to pay only $24.16 of his income in taxes, but to have an income of only $450? Should he lose $250 of his annual income in order to save $2 in taxes? Should he lose 35 per cent of his income in order to save 1/3 of 1 per cent?"[1] It may be objected that this comparison is unfair, for it is made on the assumption that cancellation of the war debts would result immediately in a return to prosperity. If we did "assume that cancellation or reduction would take us only one-tenth of the way back - and in our opinion, it would surely do much better than that - the gain to the American taxpayer as a result of cancellation or drastic reduction would still be at the rate of more than ten to one."[2]

In an earlier issue the same publication reveals that our exports to Europe since 1929 have declined to a figure which represents four times the debt instalment due in 1932 - or a decline of more than $1,000,000,000. At the same time it is contended that a restoration of our foreign trade would enable our government to collect more than $300,000,000 annually in

1. Ibid
2. Ibid

customs duties.[1] Economists assert that simply an increase of 1 per cent in our yearly national income over the low levels that exist today would exceed twice the current annual instalment on the debts. As in a later issue of this publication, referred to in this discussion, it is claimed that we are losing almost $30,000,000,000 a year in national income. Or, we experience, because of the depression, a loss of $100 annually for every dollar owed us in annual instalments of the debt payments.[2]

Senator William E. Borah is an advocate of debt cancellation if these debts can be exchanged for prosperity. He takes the position that these "debts are simple economic facts; they are not a fetish, they are not a thing to be worshipped. They are economic facts which we may exchange for other economic facts if those economic facts are more valuable to the American people .... It is estimated by such men as Professor Fisher that this depression has cost the American people alone $150,000,000,000. Now, we get $250,000,000 a year - if we get it - from these foreign nations. I would be delighted to trade $250,000,000 to stop the devastating effect of the $150,000,000,000 depression."[3]

A recognized authority on the war debts feels that although the wiping out of the debt obligations would not cure the many

1. Mr. Edward T. Root says that the Foreign Policy Association reports a decline in customs duties, during the past two years, of $498,000,000. This is $24,000,000 more than the war debt payments which should have been made during the same period. The Christian Century (November 30,1932), "Can We Afford to Be Paid?"; p. 1469.
2. The Nation (November 23,1933),"War Debts versus Recovery,"p.491.
3. Senator William E. Borah, The Literary Digest Polital Cyclopedia, p. 203.

ills with which the world is afflicted, "economic analysis" leads unquestionably to the conclusion that world prosperity would be made "much easier" in the absence of the "disquieting effects" of the war debt payments. Such is the lesson taught by fourteen years' experience with the debt problem.[1]

Apparently there exists among the American public today the mistaken belief that the full payment of the war debts would greatly aid the balancing of the national budget. The funds from our debtor governments under the debt settlements have not been added to the federal budget. It is the "stated policy" of the Treasury Department[2] to apply the funds received under the debt agreements to the "retiring" of the public debt.[3] Until recently, at least, "payment against the principal" of the war debts has been used to reduce the public or federal debt. These payments have not afforded much relief in the "direct reduction of taxation." Interest payments, though, may be used to defray current expenses. The debtor governments may make their interest payments, with certain exceptions, in obligations of our government, with the result that the public debt is thereby reduced."[4]

1. Harold G. Moulton, Yale Review (Autumn,1932),"The American Stake in the War Debts," p. 96.
2. Foreign Policy Association; vol.III,special supplement no.1; "The United States and the War Debts"; p. 24.
3. However, the use of war debt payments to reduce the public debt would "consequently bring about a reduction in annual interest charges." In this way the debt payments would serve to "reduce by 10 per cent the amount that American citizens would be required to pay for the general expenses of the government." This would relieve the taxpayers of a per capita impost of between two to four dollars annually. Ibid.
4. James W. Angell, Foreign Policy Reports; vol. VII, no.4; (April 29, 1931);"Reparations and the Inter-Ally Debts in 1931;"p. 96.

A number of writers could be quoted to show further that the trend of opinion among the students of public affairs points to the realization that the war debt problem is a major factor in the world-wide depression. True it is that some of these observers do not advocate complete cancellation; but they do ask for a substantial revision downward of these debts. Those who do call for a readjustment of the war debt question reach the common conclusion that such action would mean the restoration, in some measure, of world trade and the consequent general amelioration of economic conditions the world over. They contend - and logically - that, although complete cancellation would transfer the tax burden to the American public, that tax would be comparatively light. They further claim that such a moderate impost, <u>by far</u>, would be offset by an increase in national income that would result from the stimulation of world business.

SUMMARY

The American government loaned to twenty countries the approximate total of $11,000,000,000 from April 1, 1917, to November 30, 1920. These loans are divided into two periods, the pre-armistice and the post-armistice loans. The United States received from these countries commercial notes bearing, in most cases, interest at the rate of 5 per cent. Our government advanced these loans at a time when the financial resources of the Allies were exhausted; when their stores of supplies were low; at a time their best man power had diminished greatly, and when their morale appeared to be shaken severely. The credits advanced to the Allies were used chiefly in the purchasing of supplies in the United States. Early in the decade of 1920-1930 debt-funding agreements were reached by the United States and the greater number of her debtor nations, whereby debt payments were to be extended over a period of 62 years, with a rate of interest of 3 per cent for the first 10 years, and for the remaining 52 years a rate of interest of $3\frac{1}{2}$ per cent.

There is a wide variation of attitude toward the war debt question by individuals in the United States. A certain group contends that the debts are legitimate commercial loans; that cancellation would impose a burden on the American taxpayer. Another group favors modification of the debt settlement, depending on capacity to pay, and a consideration of the general price levels at the time the debts were incurred and the price levels from now on. Still others call for an indefinite moratorium on

debts, until the restoration of world trade.

It is self-evident that a nation owing a great foreign debt must be able to sell her services or goods to her creditor nations, or nations which receive the "exchange" of these creditor nations, in order that she might accumulate the "exchange" of her creditor nations with which to make payment. The United States, though, has built up a merchant marine that is carrying now the larger part of her goods in foreign trade - depriving, in a large measure, the selling of services in that field by the debtor nations. Restrictions on immigration have been such since the end of the war that the selling of services by the debtor nations in the transportation of immigrants - who would be sending remittances back to countries which are debtors to the United States - has limited greatly that source of American dollars. The expenditures of American tourists abroad, another source of income to the debtor nations, has been so increasingly curtailed that that must be judged as a negligible factor. It is obvious, then, that payment must be made by the shipment of goods.

The conditions under which goods might be shipped, though, prove difficult, because of the setting up of tariff barriers by many nations. Not only do the debtor nations suffer by such policies, but also the creditor nations lose. The latter, who, in many cases, deliberately are shutting out the goods of their debtor countries, are making payments due them more of a burden to their debtors. The only alternative, if these debtor govern-

ments are not going to default, is for these same nations to curtail their imports, thus striving to build up an excess of exports over imports. Some debtor nations have resorted to this policy.

The United States should realize that the debtor nations must have a favorable balance of trade in order that they may save American dollars for debt payments, besides for purchases of necessary imports. But such a state of affairs would involve a revolutionary change in American commercial policy and in her general economic life; she would be obliged to import more than she exports. This step would be too unselfish, too altruistic, for the American business interests to undertake. No one could expect a great, wealthy power, dependent on foreign trade for its immediate prosperity, to lower deliberately its national income, for the sake of helping the rest of the world.

An unfavorable balance of trade on the part of the United States would mean the curtailment of an important and necessary export trade. A high percentage - between 20 per cent and 40 per cent - of the total production of certain American goods are shipped abroad. Some of our largest agricultural and industrial interests would be crippled. In particular, the cotton, tobacco, and wheat areas would suffer; as would automobile and machinery manufacturing plants, copper mines, and oil producing and livestock growing areas. General unemployment would follow in the wake of curtailment of exports on the part of the above-mentioned interests. This unemployment would spell the loss of the pur-

chasing power of a large part of the American buying public. The significance of this is a consequent serious loss of domestic trade, with attendant general economic disturbances the country over. It would be difficult to transfer the capital and labor from these "crippled" agricultural and industrial interests to other fields of endeavor. Most lines of production are so highly developed now that they are able to produce the immediate demands of our foreign and domestic markets! There could be no sustained sale of surplus goods at first, when there is no constant demand, in our domestic markets.

It is undeniable that the present debt settlement is a burden on the world at large, particularly, of course, the debtor nations. With tariff barriers shutting out, to a marked extent, the goods from the sale of which debtor countries hoped to accumulate American dollars, debt payments have been made more difficult. These nations will lower their standards of living, no doubt, by their resorting to a curtailment of imports. General national impoverishment has set in. The debtor nations must have access to a certain share of foreign trade in order to build up a national surplus for debt payment; on the other hand, by the necessity of making these payments, these same nations are so generally impoverished that they afford limited markets for new production, thus reducing the volume of world trade! Besides these economic factors, there exist psychological factors with which the American people must reckon. A portion of the citizens of the debtor nations apparently are led to be-

lieve that they are paying tribute to a foreign power; that their independence is being limited because of the war debts. The debt problem seems to be largely responsible for the general European feeling that Uncle Sam is the "great commercial rival and financial dictator" of the nations of Europe.

The complete cancellation of the war debts would transfer an extra tax to the shoulders of the American taxpayer. Such an added impost is estimated at two dollars per capita annually. But it is contended, with reason, that complete cancellation would so serve to stimulate better business conditions the world over, that this comparatively light tax would be offset, in no small measure, by the increased national income of the American public. It is a limited number of individuals, though, that realize that full payment of the debts would not contribute appreciably to the national or federal budget since the Treasury Department has adopted a policy that payments on the principal of the debts must be applied to reduce the public debt of the United States rather than to reduce taxes.

SECONDARY SOURCES

1. Franklin Escher, Foreign Exchange Explained; The MacMillan Company, 1920.

No direct reference was made to this volume. It was studied for a review of the general principles of exchange as applied to foreign trade.

2. Harvey E. Fisk, The Inter-Ally Debts; Bankers Trust Company, 1924.

This source, a carefully compiled volume, is replete with material for the development of the historical background of the inter-governmental debts. It was referred to a number of times.

3. A. E. Martin, History of the United States, vol. II; Ginn and Company, 1931.

In this text about four pages devoted to a discussion of the war debts were studied. One reference was made to this volume.

4. Harold G. Moulton and Leo Pasvolsky, War Debts and World Prosperity; George Banta Publishing Company, 1932.

Considered an outstanding authoritative work on the war debts, this volume furnished a number of references on the history of the debts, and some guiding ideas on the trade aspects of the same subject.

5. National Industrial Conference Board, The Inter-Ally Debts and the United States; published by the National Industrial Conference Board, Inc., 1925.

This is a valuable work compiled by a group of men who are experts in their respective fields. In this book practically every phase of the war debt question is covered - in particular, the war debts as they affect American Industry.

6. Sir Arthur Salter, K. C. B., Recovery: The Second Effort; The Century Company,,1932.

Recognized as an important work on the world depression in general, this volume limits the discussion of the war debts to a comparatively small space. Some thoughts were gathered from this source on the viewpoint of a liberal modificationist. A few references were made to the material on the tariff situation.

7. Eugene Thwing, editor, The Literary Digest Political Cyclopedia; Funk and Wagnalls Company, 1932.

This handy volume contains the views on various topics held by the national parties which participated in the national compaign of 1932. Two references were made to this work on the tariff question and trade aspects of the debt problem.

8. Woodrow Wilson, The War Message and Facts Behind It; Government Printing Office, 1917.

The Committee on Public Information prepared this annotated text of President Wilson's War Message of April 2,1917. In the use of this volume, reference was made to the words of the war-time President in respect to the aid he felt we should give the Allies in the prosecution of the war.

PAMPHLETS

9. Lewis Webster Jones, Foreign Policy Association (Information Service); Vol. III; Special Supplement no. 1; "The United States and the War Debts"; published by the Research Department of the Foreign Policy Association, (about) 1927.

This proved to be one of the most valuable sources of material on the whole war debt problem. It is a compact review of the history of the war debts and their general bearing on the economic wellbeing of the world - the United States, in particular.

This pamphlet served to furnish the guiding ideas in the development of the history of the debts. Numerous references were made to this excellent "Memorandum."

PERIODICALS

10. Proceedings of Academy of Political Science, vol. XV, no.1; (May, 1932); published by the Academy of Political Science; Columbia University.

A compilation of addresses of various national figures, this work furnished the opinions of four men, under the topic (in the thesis) of representative viewpoints on the settlement of the war debt question.

Most of the periodicals listed below, with the exception of the Literary Digest, were used liberally. Reference was made at least once to most of these periodicals, which provided the larger amount of material in the discussion of the trade aspects of the war debts.

11. Contemporary Review, June, 1932.

12. Christian Century, December 14, 1932.

13. Graphic Survey, November 1, 1932.

14. The Literary Digest, November 26, 1932.

15. The Saturday Evening Post, December 24, 1932.

16. Foreign Policy Reports, Vol. VII, no.4, April 29, 1931.

17. The Commonweal, November 23, 1932.

18. Yale Review, Autumn number, 1932.

19. The Literary Digest, December 3, 1932.

20. Christian Century, November 30, 1932.

21. Foreign Policy Reports, Vol.VII, no.22, January 6, 1932.

22. Review of Reviews, January, 1933.

23. The Saturday Evening Post, December 10, 1932.

24. The Literary Digest, December 10, 1932.

25. The Commonweal, July 27, 1932.

26. The World Tomorrow, December 7, 1932.

27. The Saturday Evening Post, August 13, 1932.

28. The Business Week, November 23, 1932.

29. The Literary Digest, December 17, 1932.

30. The New Outlook, December, 1932.

31. The Commonweal, October 19, 1932.

32. The Saturday Evening Post, January 7, 1933.

33. The Christian Century, August 31, 1932.

34. The New Republic, November 30, 1932.

35. The Nation, December 14, 1932.

36. Foreign Affairs, July, 1932.

37. _The Commonweal_, November 30, 1932.

38. _The Saturday Evening Post_, November 5, 1932.

39. _The North American Review_, November, 1932.

40. _The Business Week_, December 7, 1932.

41. _The Nation_, November 23, 1932.

42. _Current History_, January, 1933.

43. _National Republic_, June, 1932.

44. _The Literary Digest_, December 24, 1932.

45. _The Nation_, December 7, 1932.

46. _The Literary Digest_, December 31, 1932.

47. _Collier's_, February 25, 1933.

48. _The Boston Herald_, April 13, 1933.